

that mandates such a mechanism. AT&T cites section 254(b)(4), but that section only addresses the "contribution" to universal service, it does not address how carriers may recover such contribution from their customers.

Indeed, AT&T is free to recover its contributions from its customers, including any subset of its customers, in any way it chooses. For example, to the extent AT&T acts as a wholesale provider of long distance service, it is free to charge resellers as one recovery mechanism. While the price cap rules do not give incumbent LECs the same flexibility, it is competitively neutral to allow LECs to recover some or all of their contributions from access customers.<sup>59</sup>

AT&T claims that allowing LECs to recover universal service contributions from access customers will create a barrier to entry in the local market because "the ILEC will be able to recover its USF support obligation from its access customers, a CLEC that enters the local service market through resale" would not. AT&T is wrong. Basic economic and regulatory principles permit a carrier to recover its overhead costs from any or all of its customers without being seen as engaging in anticompetitive behavior. Such overhead costs now include universal service contributions. The options available to any competitor to recover overhead costs are a function of its own fundamental business strategies: if a competing LEC chooses to be only a reseller, it has only one class

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<sup>59</sup> Assuming AT&T intends to pass along future access charge reductions, it may reduce its prices to its customers based on its net access charge reductions (net of LEC universal service contribution recovery that increases access rates).

of customers from whom to recover such costs, but in return, it has undertaken less risk. Those carriers willing to undertake the additional risks associated with facilities-based competition and additional lines of business may spread their overhead costs among several categories of customers.

**V. The Commission Should Not Pro-Rate Trunk Ports That Are Used To Originate Or Terminate Traffic Served By CLECs Using Unbundled Network Elements.**

AT&T asks the Commission to require the LECs to pro-rate the trunk port charges mandated by the *Access Charge Reform Order* insofar as trunk ports are used to originate and terminate both access traffic and traffic that is served by competing LECs using unbundled network elements ("UNEs").<sup>60</sup> AT&T claims that this is necessary to avoid double-recovery where a LEC has established a Local Switching UNE rate that includes recovery of the costs of the trunk port. To the extent that a double recovery could exist,<sup>61</sup> the simple solution is to reconsider the requirement that trunk ports be offered as a separate flat rate access charge. Including the trunk port as part of the per-minute switching charge eliminates even the theoretical risk of double recovery because there would be no charge where "there is long distance traffic associated with end-user customers served by a UNE switch."<sup>62</sup> AT&T's solution requires a complicated calculation that indirectly results in a usage based charge anyway. Moreover,

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<sup>60</sup> See AT&T at 12-14.

<sup>61</sup> AT&T offers no specific instances of double recovery.

<sup>62</sup> AT&T at 13. The situation is no different at an access tandem switch.

AT&T's pro-rating scheme would require burdensome tracking and periodic rate adjustments that could unnecessarily raise the total cost of the underlying service.

## **VI. The Commission Should Not Use Projected Demand To Establish PICC and SLC Charges.**

Sprint asks the Commission to reconsider its decision to use projections of demand and revenues in the calculation of PICCs and subscriber line charges ("SLCs").<sup>63</sup> Sprint points out that the use of base period revenues divided by projected loops in the calculation of PICCs will drive PICCs down over time, which will prevent PICCs from recovering the growth in loop costs. Sprint also argues that the use of projections makes annual access tariff filings more contentious.

Sprint is correct. Demand and cost projections are inconsistent with the price cap system of regulation, which is designed to separate pricing from regulatory costing methodologies. The continued requirement to file projections of Base Factor Portion costs and loop demand in the calculation of SLCs has complicated the annual access tariff filings and has involved the parties in

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<sup>63</sup> See Sprint at 6, *citing* Sections 69.152(b)(2) and 69.153 of the Commission's rules. Section 69.152(b)(2) requires the LECs to calculate SLCs by dividing projected revenues by projected subscriber lines after the transition from use of projected revenue requirements. Section 69.153 requires the LECs to calculate the PICCs by dividing base period revenues by projected loops.

repeated disputes concerning forecasting methodologies.<sup>64</sup> This approach invites the parties to use the regulatory process to attempt to influence the level and structure of LEC rates.<sup>65</sup> The Commission should eliminate the opportunity for "gaming" the process by changing its rules to use base period demand and revenues to establish the levels of both SLCs and PICCs.

### Conclusion

The Commission should act on the petitions for reconsideration in accordance with the above comments.

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<sup>64</sup> See, e.g., 1997 Annual Access Tariff Filings, CC Docket No. 97-149, Order Designating Issues for Investigation Memorandum Opinion And Order On Reconsideration, paras. 3-34 (rel. July 28, 1997).

<sup>65</sup> See Petition of AT&T Corp. on Price Cap LEC Tariff Filings, 1997 Annual Access Tariff Charge Filings (filed June 23, 1997).

## SERVICE GROUPS' MARKETING EXPENSE, ACCOUNT 6610

	Bell Atlantic-South <sup>1</sup>	Bell Atlantic-North <sup>2</sup>
Consumer	24%	21%
Business	49%	60%
Carrier Services	4%	15%
Federal Systems	9%	1%
Other Lines of Business	14%	3%
Total	100%	100%

Data from special study of underlying accounting records for period of Jan.-Dec. 1996 for Bell Atlantic-South and Jan.-Jun. 1997 for Bell Atlantic-North.

## VALUE ADDED SERVICES & OPTIONAL CALLING PLANS

	Bell Atlantic-South	Bell Atlantic-North
<b>Residential:</b>		
% of Lines w/1 or more VAS	55.3%	50.7%
<b>Single Line Business:</b>		
% of Lines w/VAS or OCP	44.5%	48.2%

*Residential data source:*

Special study using company revenue reports, line features reports, and access line reports for May 1997 for Bell Atlantic-South and April 1997 for Bell Atlantic-North.

*Single line business data source:*

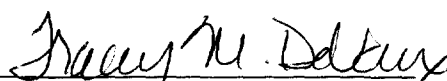
Special study of billed single line business accounts for June 1997 for Bell Atlantic-South. Bell Atlantic-North data reflects only that of New York Telephone for May 1997 and was extracted from a special study developed from internal records.

<sup>1</sup> Bell Atlantic-South consists of Bell Atlantic-Delaware, Inc.; Bell Atlantic-Maryland, Inc.; Bell Atlantic-New Jersey, Inc.; Bell Atlantic-Pennsylvania, Inc.; Bell Atlantic-Virginia, Inc.; Bell Atlantic-Washington, D.C., Inc.; and Bell Atlantic-West Virginia, Inc.

<sup>2</sup> Bell Atlantic-North consists of New York Telephone Company, and New England Telephone and Telegraph Company.

CERTIFICATE OF SERVICE

I hereby certify that on this 18th day of August, 1997 a copy of the foregoing "Comments of Bell Atlantic on Petitions for Reconsideration of Access Reform Order" was sent by first class mail, postage prepaid, to the parties on the attached list.

  
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